

REPORT OF THE AUDITOR-GENERAL TO THE MEMBERS OF THE COUNCIL ON THE FINANCIAL STATEMENTS OF RAMOTSHERE MOILOA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages ... to ..., for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act. No. 25 of 2004) and section 126(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the municipal manager. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards of Auditing read with *General Notice 1512* of 2006, issued in *Government Gazette* no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

3. BASIS OF ACCOUNTING

The municipality's policy is to prepare the financial statements on the entity specific basis of accounting as described in note 1 of the accounting policies to the financial statements.

4. QUALIFICATION

4.1 Opening balances

It was not possible to verify the accuracy of the opening balances because of the impact of prior year qualifications and limitation of scope. The necessary audit adjustments were not effected and the appropriate documentation could subsequently not be supplied.

4.2 Revenue

4.2.1 Assessment rates

(a) As a result of the under-mentioned deficiencies, I could not establish the completeness, accuracy and validity of assessment rates disclosed as R8 922 389 in the financial statements:

(b) The municipality has not performed general valuations on land and improvements since 2001. This is in contravention with section 8(1) of the Property Valuation Ordinance 1993, which requires a general valuation to be performed every 4 years.

(c) The total income from assessment rates per note 13 to the financial statements of R9 144 312 is R221 922 more than the amount per the general ledger. No explanation could be provided for this difference.

(d) A reconciliation between assessment rate income for the year and the valuation roll could not be supplied for audit.

4.2.2 Grants received

(a) An unreconciled difference of R586 396 existed between schedule 3 of the Division of Revenue Act, 2005 (Act No. 1 of 2005) (DORA), in respect of equitable share and the amount per financial statements.

(b) Grants and subsidies received from provincial departments to the value of R1 146 442 were incorrectly allocated to other income.

4.2.3 Other income

(a) The library income subsidy to the amount of R350 000 was incorrectly allocated to the debtors account, therefore revenue and debtors are understated.

(b) No interest was charged on long outstanding consumer debtors resulting in a loss of revenue to the municipality.

(c) Interest raised on long-term debtors to the amount of R157 163 was not recorded in the general ledger. Interest received is therefore understated by the same amount.

4.3 Expenditure

As a result of the under-mentioned deficiencies, I could not establish the completeness, accuracy and validity of expenditure disclosed as R24 690 457 in the financial statements:

4.3.1 Various vouchers could not be submitted to substantiate expenditure amounting to R286 523.

4.3.2 Supporting documentation for journals and payments to the value of R303 421 and R783 614 respectively could not be supplied.

4.3.3 No orders, quotations or requisitions were attached to payments amounting to R161 781.

4.3.4 Expenses to the value of R7 503 982 were not properly authorized.

4.3.5 Assets purchased during the year to the amount of R456 012 were erroneously classified as an expense and not capitalised.

4.4 Funds and reserves

4.4.1 The municipality did not have sufficient investments to cover funds and reserves. Accumulated funds, reserves and trust funds amounted to R28 162 779 whilst the total internal and external investments (including bank and cash) amounted to R18 362 380, thus resulting in a shortfall of R9 800 399.

4.4.2 No policy has been developed and implemented for funds and reserves.

4.5 Long-term liabilities

An unreconciled difference amounting to R242 546 existed between the balance per loan confirmation letter and the amount recorded in the general ledger, therefore long-term liabilities are understated with the said amount.

4.6 Commitments

Commitments were not disclosed as part of the notes to the financial statements in respect of capital projects. The completeness of commitments could therefore not be verified as records pertaining to capital projects could not be submitted.

4.7 Fixed assets

Existence, rights and obligations, completeness, valuation and disclosure of fixed assets to the net amount of R10 098 065 could not be verified as no fixed asset register was submitted for audit.

4.8 Consumer debtors

I could not confirm the existence, completeness, valuation and allocation, classification and disclosure of debtors amounting to R17 624 479 due to the following deficiencies, which serve as examples only:

Comment [S1]: Correct assertions?

4.8.1 Debtors increased by R5 499 533 to R26 190 999 (2005: R 20 691 465), an increase of 27%. This indicates that the measures implemented to recover outstanding debtors were inadequate, with the resulting negative impact on the cash flow position of the council.

4.8.2 The provision for bad debts amounted to R10 000 000, and is understated by R12 255 690 as debtors outstanding for a period of 90 days and longer amounted to R22 255 690 (85% of total debtors).

4.8.3 Furthermore the municipality could not supply the basis of calculation in respect of the provision for bad debts reflected as R10 000 000 in the financial statements.

4.8.4 Included in the debtors' balance are the figures with credit balances to the amount of R910 463. Debtors and creditors are therefore understated with this amount.

4.9 Long-term debtors

The accuracy of long-term debtors could not be verified as a result of the under-mentioned deficiencies:

4.9.1 An unreconciled difference amounting to R166 386 existed between the debtors listing and the amount recorded in the general ledger.

4.9.2 An unreconciled difference amounting to R178 708 existed between the amount reflected in the financial statements and the amount recorded in the general ledger.

4.9.3 Recoverability of certain long-term debtors is doubtful.

4.10 Provision for leave pay

4.10.1 An unreconciled difference amounting to R620 235 existed between the leave pay provision schedules and the amount recorded in the general ledger.

4.10.2 Provision for leave pay was incorrectly calculated as only the basic salary of the employees was used in calculating the provision and not the total salary package. The leave pay provision is therefore understated.

4.10.3 No policy for leave provision and payouts existed. However, leave payouts to the value of R641 156 were made. I therefore could not establish whether the leave payouts made during the year were appropriately approved.

4.11 Creditors

I could not confirm the completeness, valuation and allocation, classification and disclosure of creditors amounting to R17 624 479 due to the following deficiencies, which serve as examples only:

4.11.1 The municipality was unable to provide the underlying documentation for transactions amounting to R552 143 in respect of creditors.

4.11.2 Creditors amounting to R1 563 362 were not accounted for in the financial statements.

4.11.3 Included in creditors is a suspense account to the amount of R55 321 from the previous financial year, which was not cleared during the year under review.

4.11.4 No expenses were incurred against projects to the amount of R1 146 734, which could affect service delivery.

4.11.5 Projects to the amount of R5 258 462 were not accounted for in the financial statements and general ledger. Advance payments and bank are therefore understated.

4.12 Cash and bank

The accuracy and validity of cash and bank amounts disclosed in the financial statements could not be verified due to the following:

4.12.1 Documentation to support numerous reconciling items could not be submitted for audit purposes.

4.12.2 Monthly bank reconciliations were not performed and submitted to council as required in terms of Regulation 18435, Government Gazette of 14 November 1997.

4.13 Salaries and wages

The accuracy and occurrence of employee costs could not be verified as numerous employee files could not be submitted for audit and the employee files that were submitted, did not contain the latest letters of salary increases.

4.14 Accounting records

The council's records did not permit the application of alternative auditing procedures regarding any of the above-mentioned items. Consequently I did not

obtain all the information and explanations I considered necessary to establish the validity, accuracy and completeness of the account balances.

The cause of the above shortcomings stem from the severe capacity constraints and the lack of skills and competencies in the finance component of the municipality. Furthermore, no standardised procedures exist, management information is lacking and no reconciliations or reviews of information were done.

5. DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters referred to in paragraph 4, I do not express an opinion on the financial statements.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed, attention is drawn to the following matters:

6.1 Weaknesses in internal control

6.1.1 The following control weaknesses of concern were identified:

- No IT steering committee has been established to address the IT matters.
- No fraud prevention plan has been formulated, developed, adopted and implemented.

6.1.2 The following policies and procedures were not yet adopted and implemented:

- Skills retention and monitoring of the competency of staff, to ensure that skilled and competent staff is retained and assessed.
- Promotion and compensation of staff policy.
- Risk management and backup policy.
- Journal and disclosure policy.
- Municipal tariff policy.

6.2 Non-compliance with laws and regulations

Instances of non-compliance with laws and regulations were identified during the audit, for which the following serve as examples:

- section 126(1) of the MFMA relating to submission of financial statements
- section 125 of the MFMA relating to other compulsory disclosure in the annual financial statements.

- section 98 of the MFMA relating to monthly reconciliation of revenue and accounts
- section 5(2) of the Municipal Systems Act, 2000 (Act 32 of 2000) relating to the disclosure of financial interest by councillors.

6.3 Reticulation losses

No calculation could be provided for reticulation losses, which should be disclosed in Annexure F to the financial statements.

6.4 Budget process

- The tabling of the budget before the council was late, contrary to the requirements of section 21(1b) of the MFMA.
- Various contraventions of sections 15,17, 22 and 24(3) and of the MFMA were noted in respect of the budget process.

6.5 VAT

6.5.1 Penalties and interest to the amount of R129 233 were paid to service providers. These payments were not treated as fruitless and wasteful expenditure.

6.5.2 No VAT was claimed for electricity purchases to the amount of R300 506.

7. APPRECIATION

The assistance rendered by the staff of Ramotshere Moiloa Local Municipality during the audit is sincerely appreciated.



ND Maphiri *for* Auditor-General

Rustenburg

15 December 2006



A U D I T O R - G E N E R A L

